

Analyst Reports: Calvert Social Investment Equity I CEYIX



Kudos

Current manager has

We're disappointed by a few recent mistakes, but Calvert Social Investment Equity remains a fine core holding for socially conscious investors.

Dan Boone, who has subadvised this fund since late 1998, tends to buy stocks with steadily rising profits and relatively little debt that also pass Calvert's social screens. Firms that possess all of these attributes often command a premium valuation, and tend to include drug-makers, consumer goods producers, and well-established names within the tech sector, such as Microsoft MSFT. Although Boone tries to buy these companies when they're cheap relative to their histories, the fund's price multiples are often higher than its typical large-blend peer's.

Boone's approach is sensible, if unremarkable. His taste for steady growers served shareholders quite well in the bear market, and some deft moves helped his cause: For example, at the tail end of the bull market, he bulked up on less-trendy names such as EOG Resources EOG, a natural-gas producer that was churning out steady profits but had nevertheless been beaten down. (The stock then tripled in value in 2000.)

More recently, however, his execution has been wanting; he's purchased firms that boasted increasing earnings growth, but subsequently stumbled. To wit, he bought storage maker Qlogic QLGC in late 2003 after the stock rallied on sharply higher earnings growth, but sold it in mid-2004 when increased competition squeezed profits. As such, the fund lagged the vast majority of its peers in 2004.

Despite those missteps, we're still confident in this offering. Although it struggled in 2003 as well, when speculative fare rallied, that owes more to Boone's taste for steady-Eddy firms. Meanwhile, his approach is unchanged and he's backed here by a veteran team at his firm, Atlanta Capital Management. Finally, he's invested a substantial amount of his net worth in the fund, which possesses a superb record on his watch.

Returns	Total Return %	+/- Category
05-05	0.00	1.99
2004	7.33	-0.37
2003	23.00	-5.89
2002	-14.52	12.92

Fund Family Grade: 2.8

notched a great track record. Fund held up well in the bear market despite a growth tilt.

#### Risks

Fund courts risk by maintaining a concentrated portfolio that includes small-and mid-cap names, as well as less diversification across sectors than its typical peer. Above-average stake in midand small-cap stocks means fund may lag when megacaps rally. Despite substantial asset growth, expenses have increased over the past five years.

#### Strategy

Manager Dan Boone invests in 50 to 55 stocks with solid earnings histories and business franchises, as well as healthy balance sheets. Such firms tend to carry a high price, but Boone attempts to buy them when they're trading at belowaverage valuations relative to their histories. He tends to keep a large stake in midcap stocks. The portfolio is screened according to Calvert's social-investment criteria, which eliminate alcohol, tobacco, gambling, and weapons companies, as well as firms with poor environmental records and poor labor practices.

### Management

Dan Boone is a manager for subadvisor Atlanta Capital Management, and he has run this offering since September 1998. Boone is assisted by a team of Role in Portfolio Core.

industry-specific analysts at his firm. In addition to this offering, he runs \$5 billion in non-socially screened private accounts using an otherwise identical style. Earlier in his career, Boone worked at Lazard Freres. Calvert does the fund's social screening.

### Inside Scoop

The manager of this socially screened fund sticks mainly to steady growers, though he will occasionally pay a premium for firms with more-rapid earnings growth. He focuses primarily on large-cap stocks, but will also dip down the market-cap ladder.

Quote: Calvert Social Investment Equity I CEYIX

Quote 8/4/2005 11:00:00 PM

 Last Price
 Day Change
 52-Week High
 52-Week Low

 36.91
 -0.33 (-0.89%)
 37.25
 30.95

# Total Returns: Calvert Social Investment Equity I CEYIX



- Fund: Calvert Social Investment Equity I
- Category: Large Growth

Index: S&P 500

Calendar Year Tota	I Retur	ns								07-31	-2005
	1995	1996	1997	1998	1999	2000	2001	2002	2003		07-05
Total return %						11.98		-14.52	23.00	7.33	4.53
+/- Category						24.76	22.14	12.59	-5.95	-0.41	1.67
+/- Index						21.08	12.93	7.57	-5.67	-3.54	1.65
% Rank in						3	2	4	80	52	28
Category											
Trailing Total Retur	ns								through	า 08-04	-2005
		T	otal Ret	urn %			+/- S&	P 500		% Rank	c in Cat
1-Day			-	0.89			-	0.96			56
1-Week			-	0.59			-	1.37			51
4-Week				3.22			-	1.09			51
3-Month				7.55			-	0.16			62
Year-to-date				4.56				0.78			28
1-Year			1	4.49			-	0.77			60
3-Year Annualized			1	3.23			-	1.73			41
5-Year Annualized				3.85				5.32			1
10-Year Annualized	*										
									* as of	07-31	-2005
Historical Quarterly	/ Retur	ns									
			Q1			Q2		Q:	3		Q4
2005			-2.1			63					
2004			).64			23		-3.14			9.09
2003			1.15		14.			2.08			9.85
2002			.92			9.9		-16.1			10.96
2001			3.19			85		-13.11			15.31
2000		1	1.2		-1.	95		1.69	9		1
1999									-		
1998									-		
1997									-		
1996									-		
1995									-		
1994									-		
Tax Analysis										07-31	-2005
				1Y-E	Avg %		5-Yr	Avg %		10-Yr	Avg %
Pretax Return					11.49			4.18			
Tax-adjusted Return					11.48			3.84			
% Rank in Category					33			01			
Tax-Cost Ratio					0.01			0.33			
Potential Cap Gains	Exposu	ire %		20.	03156						

Rating: Calvert Social Investment Equity I CEYIX

Morningstar Ratings			07-31-2005
	Morningstar Return	Morningstar Risk	Morningstar Rating
3-Year	Average	Average	***
5-Year	High	Below Average	****
10-Year			Not Rated
Overall	Above Average	Below Average	***

Comparison Group: Large Growth

**Volatility Measurements** Trailing 3-Yr as of 07-31-2005 | \*Trailing 5-Yr as of 07-31-2005

Standard Deviation 12.93 Sharpe Ratio 0.78
Mean 11.49069 Bear Market Decile Rank\* 4

### **Modern Portfolio Theory Statistics**

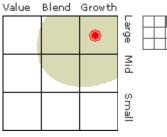
Trailing 3-Yr as of 07-31-2005

	Standard Index	Best Fit Index
	S&P 500	Russell 1000
R-Squared	94.06	94.36
Beta	0.96	0.97
Alpha	-0.56	-1.38

# Portfolio: Calvert Social Investment Equity I CEYIX

### **Equity Investment Style**

Ownership Zone 📮



Fund centroid represents weighted average of domestic stock holdings

 Zone represents 75% of fund's domestic stock holdings

		00-30-2003
Valuations	Stock	Rel to

	Portfolio	S&P 500
Price/Prospective Earnings	19.01	1.17
Price/Book*	3.38	1.36
Price/Sales*	1.58	1.07
Price/Cash Flow*	10.68	1.26
Dividend Yield %*	0.92	0.50
Growth Rates		
Long-Term Earnings Growth %	13.39	1.24
Historical Earnings Growth %	19.78	1.32
Book/Value Growth %	13.80	1.27
Sales Growth %	12.84	1.58
Cash-Flow Growth %	17.99	1.47

<sup>\*</sup>Forward-looking based on historical data

### Size

Geometric Average Cap \$Mil

19,803

Market Cap	Portfolio %	Investment Style History	
Giant	30.69	2005	
Large	36.91	2004	
Medium	31.38	2003	
Small	1.02	2002	
Micro	0.00	2001	

Asset Allocation 06-30-2005



		(as a % 01 s	Stocks)			
Se	ector Weightings					06-30-2005
				% of Stocks	s	Rel to S&P 500
6	Information Economy			17.24		0.84
ĸ	Software			2.38	-	0.59
	Hardware			14.85		1.47
٩	Media			0.00		0.00
Ē	Telecommunications			0.00		0.00
	Service Economy			57.85	5	1.26
~	Health Care Services			18.91	1	1.46
Ξ	Counsumer Services			17.17	7	1.81
<u>:</u>	Business Services			9.56	5	2.57
\$	Financial Services			12.21	1	0.62
М	Manufacture Economy			24.91	I	0.74
A	Consumer Goods			6.02	2	0.66
٥	Industrial Materials			12.54	1	1.04
ð	Energy			6.35	5	0.71
9	Utilities			0.00	)	0.00
To	op 25 Holdings tal Number of Stock Holdings	48	Turnover % Yield %			06-30-2005
	tal Number of Bond Holdings Assets in Top 10 Holdings	0 29.39	rieid %			0
Top	25 Holdings		Sector	P/E	YTD	% Net
			_		Return %	Assets
	EOG Resources		M	20.90	75.28	3.63
	Pfizer		=	21.63	0.36	3.08
	Kohl's		E	25.52	13.14	3.03
	Cisco Systems		•	23.70	0.57	2.96
_	Dell		<u> </u>	31.36	-5.48	2.89
	Amgen		=	42.18	28.89	2.86
⊕	Express Scripts		<u>=</u>	28.59	43.64	2.75
	American Express		<del>~</del>	19.74	-0.25	2.75
⊕	Illinois Tool Works		<u>0</u>	19.05	-6.48	2.74
	Walgreen			31.20	24.69	2.70
	Air Products and Chemicals		8	20.82	5.59	2.70
	Questar		M	24.36	38.75	2.62
	Medtronic		<b>=</b>	36.26	8.59	2.58
	Intel AG Edwards		Φ	21.61	16.61	2.58
	AG EUWalus		<u> </u>	17.80	2.50	2.52

Pentair       \$ 26.81       -7.42       2.50         SEI Investments       \$ 23.17       -8.55       2.47         Microsoft       □ 26.52       2.88       2.35         Dover       0 19.91       -0.40       2.35         Synovus Financial       □ 20.42       4.25       2.22	Bed Bath & Beyond	量	25.59	9.84	2.51
Microsoft       26.52       2.88       2.35         Dover       19.91       -0.40       2.35         Synovus Financial       20.42       4.25       2.22	Pentair	\$	26.81	-7.42	2.50
Dover       19.91       -0.40       2.35         Synovus Financial       20.42       4.25       2.22	SEI Investments	\$	23.17	-8.55	2.47
Synovus Financial 20.42 4.25 2.22	Microsoft		26.52	2.88	2.35
- · ·	Dover	ð	19.91	-0.40	2.35
0.1.00	Synovus Financial	A	20.42	4.25	2.22
Costco Wholesale	Costco Wholesale	₽	21.38	-7.91	2.12
Fiserv <b>\$</b> 20.37 12.52 2.03	Fiserv	\$	20.37	12.52	2.03
CDW <u>\$\begin{array}{cccccccccccccccccccccccccccccccccccc</u>	CDW	₽	21.66	-5.24	1.96
Franklin Resources 25.30 21.19 1.95	Franklin Resources	A	25.30	21.19	1.95

<sup>⊕</sup> Increase ⊝ Decrease 🛠 New since last portfolio

# Operation: Calvert Social Investment Equity I CEYIX

Fees	&	Exp	en	ses
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Fee Schedule		Maximum Fees (%)	
Front-end load	None	Administrative	0.00%
Deferred	None	Management	0.50%
Redemption:		12b-1	0.00%
2.00% for 0 days to 5			
0.00% for > 5 days		Actual Fees (%)	
· ·		12b-1	0.00%
		Management	0.00%
		Total Expense Ratio	0.68%
		Total Cost Projections (per \$10,000)	
		3-Year	\$218
		5-Year	\$379
		10-Year	\$847

# **Purchase Information**

Minimum Investments		Correspondence Information
Initial	\$100000	4550 Montgomery Ave
Additional		Suite 1000 N
Initial IRA		Bethesda MD 20814
Additional IRA		800-368-2748
Initial AIP		
Additional AIP		

# Brokerage Availability

Federated TrustConnect

Accutrade	Fidelity Institutional FundsNetwork
Ameritrade Inc.	Fidelity Retail FundsNetwork
Ameritrade Institutional Services	Insight Advisors LLC
Bear Stearns	Paulson Investment Company
Bear Stearns Load	Sungard Expediter
CommonWealth PPS	TD Waterhouse
CommonWealth Universe	TD Waterhouse Institutional
D.E. Frey & Company	

Management Fund Inception: 11-01-1999

Mngr Name Daniel Boone, III

Mngr Start Date 09-21-1998 Calvert Asset Management Co Inc.

### **Biography**

Boone is a portfolio manager with Atlanta Capital Management, his employer since 1976. Prior to joining the firm, he was with Lazard Freres of New York. Boone is a Chartered Financial Analyst and a Chartered Investment Counselor. Fund Subadvisor(s) Atlanta Capital

Fund Advisor(s)

Stewardship Grades: Calvert Soc Inv Equity I CEYIX

### Stewardship Grades

Corporate Overall Regulatory Board Manager Fees Culture Grade Quality Incentives Issues В Excellent Good Excellent Poor Good

Range: ABCDF Range: Excellent Good Fair Poor Very Poor

### Regulatory Issues: Excellent

Neither this fund nor its advisor, Calvert Asset Management, has been the subject of an SEC investigation. The same also goes for this fund's subadvisor, Atlanta Capital Management.

### **Board Quality: Good**

Seven of the nine trustees who oversee this fund are independent. That meets a new SEC requirement, to be implemented in coming months, that 75% of a board's directors be independent. Meanwhile, Wayne Silby, who is considered an interested director here because he also sits on the board of the parent company of the fund's advisor, is the chair of the fund's board. The board will have to elect an independent chairman to replace Silby when another new SEC rule requiring most funds to be chaired by an independent trustee takes effect. Five of the seven independent trustees oversee six to nine funds, which is good: It gives them the ability to give each of the funds they oversee sufficient attention. However, the remaining two independent directors sit on the boards of at least 18 funds apiece, which can make it difficult to give the same degree of oversight to each individual fund.

That said, the fund's independent directors deserve kudos for having more money invested in Calvert's funds than they receive in annual compensation for their duties, as that helps better align their interests with those of fund shareholders. The board has also demonstrated a willingness in the past to work with Calvert to find a new subadvisor for the fund when performance has been poor. (The fund's current subadvisor, Atlanta Capital Management, is rock-solid.)

However, we think the board could do more with regard to the fund's management fee. To its credit, in July 2004, the board instituted breakpoints on the management fee that the fund's advisor, Calvert Asset Management, receives. This will allow shareholders to partake in economies of scale as the fund grows.

But the savings won't flow until the fund's asset base exceeds \$2 billion, which means it would have to roughly double in size before the first breakpoint kicks in. What's more, the breakpoints are quite modest: The first would reduce the management fee by only 2.5 basis points. An additional, final breakpoint takes effect when the fund grows by another \$1 billion, but it also cuts the fee by a mere 2.5 basis points.

#### Manager Incentives: Excellent

Calvert's equity funds are run by subadvisors, while its fixed-income offerings are managed by an in-house investment staff. Calvert's own managers can earn bonuses based on their one-year and three-year performance, as well as the extent to which they manage risk. (We'd prefer to see five-year returns play a part in the calculation as well.) Asset growth is not a component of the bonus.

Because Calvert Social Investment Equity is subadvised by Atlanta Capital Management, that firm's compensation policies, as opposed to Calvert's, are the key to determining whether management's incentives are aligned with the interests of shareholders. Atlanta Capital Management pays bonuses to its managers based solely on their performance; assets under supervision are not considered. That's a plus, as managers are then less likely to be concerned with how their short-term performance might affect their charges' ability to gather assets. That said, managers' bonuses are based equally on their one- and three-year performances versus their benchmarks and peer groups. It's worth noting that the bonuses for one-year performance max out at 2.25 percentage points above the benchmark or in the top 20% of the peer group, thus limiting the temptation for managers to shoot out the lights over the short term. However, we'd like to see performance over longer periods, such as five years, play a part in the bonus calculation. Nevertheless, the fact that manager Dan Boone employs a relatively low-turnover style and tends to focus on long-term results is a mitigating factor.

We also take comfort from the fact that Boone has more than one third of his liquid net worth invested in this fund. We think that's an important sign of his belief in the security selection process employed here, and that it helps align management's interests with those of fundholders.

#### Fees: Poor

The fund's overall expense ratio recently declined 5 basis points to 1.24%. That said, there's still plenty of room for improvement here. To wit, that levy is still higher than the fund's expense ratio in 1999, when it weighed in at less than one third of its current size. That price tag is also a tad higher than the fund's typical broker-sold large-blend peer's.

To its credit, in July 2004, the fund's board instituted breakpoints on the management fee that the fund's advisor, Calvert Asset Management, receives. This should serve to better ensure that savings flow to shareholders as the fund grows.

Nevertheless, the board's move isn't enough to improve the fund's grade in this section. As mentioned, its expense ratio remains stubbornly high when compared with peers and after accounting for its growth in recent years. True, the breakpoints should help to eventually fray expenses. But the savings won't flow until assets eclipse the \$2 billion mark, which means the fund would have to roughly double in size before the first breakpoint kicks in. And even then, the discount is rather modest--the first breakpoint would reduce the

management fee by only 2.5 basis points. And while an additional, final breakpoint takes effect when the fund passes the \$3 billion asset threshold, it also provides a mere 2.5 basis points in savings.

### **Corporate Culture: Good**

Calvert Asset Management, the advisor to nearly 20 socially responsible funds, earns a relatively high corporate culture score. Although Calvert's fund roster is sizable, there is little overlap between its offerings. Unfortunately, the firm has rolled out offerings in the past that were geared to capitalize on market trends. For example, the firm launched a technology fund in 2000, at the height of the tech craze, only to merge it away in 2002. That said, Calvert provides a wealth of information to investors, both in shareholder reports and on its Web site. The latter features extensive descriptions of the firm's social screens and proxy voting guidelines, and each fund's complete holdings are disclosed monthly. The site also has a tool that investors can use to screen the holdings of mutual funds from other companies, based on Calvert's criteria.

The firm's investment practices often aspire to a high ethical standard, too. In order to combat market timing, Calvert has fairly restrictive policies on fund trading, and all of its equity funds carry a 2% redemption fee for shares sold within 30 days.

Furthermore, Calvert has been a solid advocate for the rights of fund shareholders. For example, the firm has disclosed its proxy votes since 2000 and petitioned the SEC to require all fund firms to reveal their votes. (The SEC later passed such a measure.) We applaud Calvert's efforts on this front, as we have long believed that fund shareholders have a right to know how the shares of firms that they own--through their funds--are being voted.

Calvert does fall short in two areas. First, the firm's funds are on the expensive side. Given that Calvert uses subadvisors on all of its stock funds, it should have the leverage to negotiate lower management fees. Its fixed-income funds, which are managed internally, also tend to carry hefty price tags, particularly Calvert Income CFICX. Second, the firm pays brokers in return for inclusion on their preferred lists, which advisors use to select investments for clients. That gives brokers an incentive to place their clients in Calvert's funds, while perhaps giving short shrift to issues such as performance, expenses, and client risk tolerance. The firm's asset management arm also has "soft-dollar" arrangements with certain brokerages, in which it pays higher trading commissions in exchange for research and equipment. Such deals pass hidden costs on to shareholders. That said, the shop is a cut above many fund families.

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